

**SUMMARY OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
INVESTMENT COMMITTEE**

**HELD ON
Wednesday, February 8, 2006
5:30 p.m., MST**

The Investment Committee (IC) of the Arizona State Retirement System (ASRS) met at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix, Arizona 85012. Mr. Lawrence Trachtenberg, Chairperson of the IC, called the meeting to order at 5:30 p.m., MST.

The meeting was teleconferenced to the ASRS Tucson office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Lawrence Trachtenberg, Chairperson
Mr. Karl Polen
Mr. Christopher Harris

Absent: Ms. Anne Mariucci

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion, and Appropriate Action Regarding Byram Capital Management

Mr. Gary R. Dokes, ASRS Chief Investment Officer, gave an overview regarding the performance of Byram Capital. Mr. Dokes indicated that their performance has been poor and there was concern that Byram would not be able to add alpha to the ASRS portfolio going forward. Mr. Dokes discussed the reasons for concern, which center on assessment of Byram's investment process, infrastructure issues, and poor historical portfolio performance. Based on this information, the Investment Management Division (IMD) recommended to the Committee that Byram Capital be terminated.

Motion: Mr. Christopher Harris moved that the Investment Committee (IC) recommend to the ASRS Board that the Board terminate Byram Capital as an ASRS U.S. Equity Small Cap core investment manager;

and

Transition assets of approximately \$240 million from Byram to Mellon Capital Management, ASRS U.S. Equity Small Cap core passive portfolio;

and

Maintain assets with Mellon Capital; final disposition will be consistent with the proposed 2006 ASRS Asset Allocation study decisions which will include, but not be limited to, ASRS Small Cap equity strategic and tactical sub-asset class decisions.

Mr. Karl Polen seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions and 1 absent, the motion was passed.

3. Presentation, Discussion, and Appropriate Action Regarding Barclays Global Investors (BGI) Fixed Income Asset Trust (Value-Added Strategy)

Mr. Gary Dokes, ASRS Chief Investment Officer, gave a presentation on the BGI Fixed Income Asset Trust, in which ASRS would participate as a Preference shareholder, transitioning approximately \$1 billion from the ASRS' investment in BGI passive/enhanced passive fixed income portfolios. Lehman Aggregate returns and a 15 basis point spread would provide adequate compensation for the risks undertaken. The Trust would provide an enhanced return with no material change to the risk profile of fixed income asset class or Total Fund. Also, \$1 billion represents roughly 20% of total fixed income assets and leaves adequate passive funds for liquidity needs. This was followed by an in-depth discussion of the program structure and the risks involved.

Motion: Mr. Karl Polen moved that the IC recommend to the ASRS Board that the Board approve ASRS' participation as a Preference Shareholder in the BGI Fixed Income Asset Trust (Value-Added Strategy) and the transition of approximately \$1 billion from the ASRS' investment in BGI passive/enhanced passive fixed income portfolios to the BGI Fixed Income Asset Trust, subject to legal review by a law firm with expertise in transactions involving private placements of shares in Cayman Island companies for structured financing to verify that the structure of the deal is as represented and binding and enforceable, as well as to determine whether this is a permissible fixed income investment.

Mr. Christopher Harris seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions and 1 absent, the motion was passed.

4. Presentation, Discussion and Appropriate Action Regarding the ASRS Investment Goals and Objectives

Mr. Dokes gave a brief overview on the need for ASRS Investment Goals and Objectives. Each investment goal contains a measurable objective which if met, should achieve the Board

approved agency's Purpose, Vision, and Investment Principles. The goals would be placed into the Strategic Plan for the Board. There was a discussion about the goals.

Motion: Mr. Christopher Harris moved that the Investment Committee (IC) recommend to the ASRS Board approval of the following six goals, with the only modification being the simplification of the language of all the goals to make them more easily understandable to laymen:

Goal #1: Achieve a total fund rate of return equal to or greater than the ASRS actuarial assumed interest rate.

Measurable Objective: Achieve a 10-year rolling annual rate of return equal to or greater than 8%.

and

Goal #2: Achieve a total fund rate of return equal to or greater than the ASRS Strategic Asset Allocation Investment Policy.

Measurable Objective: Achieve annual and 3-year rolling annual rates of return equal to or greater than the ASRS Strategic Asset Allocation Investment Policy.

and

Goal 3: Achieve a total fund rate of return equal to or greater than the ASRS Asset Allocation Study expected rate of return.

Measurable Objective: Achieve a 5-year rolling annual rate of return equal to or greater than the ASRS Asset Allocation Study expected rate of return.

and

Goal #4: Achieve dollar-weighted composite asset class net rates of return equal to or greater than their respective broad asset class benchmark per ASRS Strategic Asset Allocation Investment Policy.

Measurable Objective: Achieve annual and 3-year rolling dollar-weighted composite asset class net rates of return equal to or greater than their respective broad asset class benchmark.

and

Goal #5: Achieve portfolio-level net rates of return equal to or greater than their respective asset class benchmark.

Measurable Objective: Achieve portfolio-level annual and 3-year net rates of return equal to or greater than their respective asset class benchmark.

and

Goal #6: Ensure sufficient monies are available to meet ASRS cash flow requirements for pension benefits, health insurance, member refunds, administrative payments and other requirements.

Measurable Objective: Ensure all distribution payments, refunds and other cash flow requirements are made from available cash balances and without utilizing alternate liquidity options.

Mr. Karl Polen seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions and 1 absent, the motion was passed.

5. Presentation, Discussion and Appropriate Action Regarding ASRS 2006 Major Investment Project Initiatives

Mr. Dokes gave an informational briefing on the 2006 Major Investment Project Initiatives and the 2005 Goals.

6. Presentation, Discussion and Appropriate Action Regarding ASRS Strategic Asset Allocation

Mr. Paul Matson, ASRS Director, gave a brief presentation on the ASRS approach to the 2006 strategic asset allocation study, which would analyze and evaluate the traditional asset classes (i.e. public equities and fixed income) and alternative assets classes. He stated that the ASRS would issue a Request for Proposal to retain the services through an investment provider and would possibly incorporate their ideas into the study. None of the IC members present expressed any disagreement with the approach to be taken by the staff.

7. Call to the Public

None.

The meeting adjourned at 7:06 PM.

Respectfully submitted,

Lisa Hanneman, Secretary Date

Gary Dokes, Chief Investment Officer Date